

Message Text

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44

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SCEM-02 INT-08 SCI-06 SS-20 NSC-10

AID-20 CEA-02 CIAE-00 COME-00 EB-11 EA-11 FRB-02

INR-10 NEA-10 NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00

CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 /179 W

----- 086186

R 111801Z DAN 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 6240

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS

C O N F I D E N T I A L EC BRUSSELS 0201

C O R R E C T E D C O P Y (OECD PARIS ADDED AS INFO ADDEE)

PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, EEC, ENRG

SUBJ: EC COMMISSION CONSIDERATION OF ECONOMIC
IMPACT OF ENERGY SITUATION

REFS: A. EC BRUSSELS 7139 (1973)

B. STATE 002951

C. USOECD PARIS 0541

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1. SUMMARY. EC COMMISSION SOURCES HAVE TOLD US COMMISSION OFFICIALS ARE PREPARING A REPORT ON THE ECONOMIC IMPACT OF THE ENERGY SITUATION IN THE EC FOR SUBMISSION TO THE EC COUNCIL IN LATE JANUARY. COMMISSION OFFICIALS REPORTEDLY VIEW THE PRELIMINARY FIGURES, WHICH INCLUDE A PROJECTED 1974 CURRENT ACCOUNT DEFICIT OF \$19 BILLION, WITH CONSIDERABLE CONCERN. THEY FEAR THAT NATIONAL RESPONSES TO THE SITUATION WILL HAVE AN ADVERSE EFFECT ON COMMUNITY SOLIDARITY. END SUMMARY.

2. ACCORDING TO OUR SOURCES, COMMISSION ANALYSTS HAVE REACHED THE FOLLOWING PRELIMINARY ASSESSMENT FOR 1974:

A. PRICES OF IMPORTED PETROLEUM AND PETROLEUM PRODUCTS WILL INCREASE 180 PERCENT (1973-74).

B. THE NET DETERIORATION IN THE EC TRADE BALANCE WILL BE \$17.5 BILLION.

C. THE CURRENT ACCOUNT DEFICIT WILL BE \$19 BILLION.

D. CONSUMER PRICES WILL UNDERGO AN INCREMENTAL INCREASE OF 2.5 PERCENT OWING TO HIGHER ENERGY COSTS.

E. THE GENERAL LEVEL OF INFLATION AMONG THE MEMBER STATES WILL RANGE FROM 10 TO 15 PERCENT.

F. REAL GNP WILL DECLINE 1.5 PERCENT.

G. THERE WILL BE ADDITIONAL UNEMPLOYMENT EQUIVALENT TO 500,000 MAN YEARS.

3. THE ABOVE FIGURES ARE BASED ON SHORT-TERM FORECASTS AND INPUT/OUTPUT TYPE ANALYSIS. THEY ARE CONSIDERED CONSERVATIVE. FOR EXAMPLE, THE \$17.5 BILLION NEGATIVE IMPACT ON THE COMMUNITY'S TRADE BALANCE IS A NET FIGURE; IT ASSUMES HIGHER EXPORT PRICES AS A RESULT OF HIGHER ENERGY COSTS AS WELL AS REDUCED OIL IMPORTS. THE 2.5 PERCENT INCREMENTAL INCREASE IN CONSUMER PRICES IS BASED ON THE DIRECT EFFECT OF HIGHER OIL PRICES ON PRICES OF FINISHED PRODUCTS AND INPUTS. LITTLE ACCOUNT IS TAKEN OF SECONDARY EFFECTS AND THE GENERALIZED REPERCUSSION OF HIGHER ENERGY COSTS ON PRICES AND WAGES.

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4. WHILE THE COMMISSION'S FIGURES ON THE DETERIORATION OF THE EC TRADE BALANCE APPEAR TO RESEMBLE THOSE OF THE OECD SECRETARIAT (REF B), OUR SOURCES SAY THE COMMISSION'S ESTIMATES WERE REACHED INDEPENDENTLY. SO FAR, THE FIGURES DO NOT APPEAR IN ANY WRITTEN REPORT, BUT THE COMMISSION PLANS TO PREPARE SUCH A REPORT -- PRESUMABLY WITH RECOMMENDATIONS FOR ACTION --

FOR CONSIDERATION BY THE EC COUNCIL (FINANCE) WHEN
IT MEETS IN LATE JANUARY OR EARLY FEBRUARY TO EXAMINE
THE ECONOMIC SITUATION OF THE COMMUNITY.

5. WHILE OUR CONTACTS VIEW THE ABOVE FIGURES AS
DISQUIETING IN THEMSELVES, THEY ALSO FEAR THAT THE
DIFFERENTIAL IMPACT OF THE ENERGY SITUATION ON THE
MEMBER STATES WILL INDUCE EACH MEMBER STATE TO
REPLY WITH ITS OWN NATIONAL POLICIES. CENTRIFUGAL
FORCES ALREADY AS WORK IN THE COMMUNITY WOULD THUS
BE ACCENTUATED AND COMMUNITY SOLIDARITY FURTHER
JEOPARDIZED. MYERSON

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*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, EXPORTS, GNP, IMPORTS, PETROLEUM, PRICES, TRADE BALANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ECBRU00201
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: n/a
Film Number: n/a
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740169/aaaagxpi.tel
Line Count: 131
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A. EC BRUSSELS 7139 (1973); B. STATE 2951; C. USOECD PARIS 441
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 27 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 MAR 2002 by worrelsw>; APPROVED <15 MAY 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 971021
Subject: EC COMMISSION CONSIDERATION OF ECONOMIC IMPACT OF ENERGY SITUATION
TAGS: EFIN, ENRG, EEC
To: STATE INFO BONN
BRUSSELS
COPENHAGEN
MULTIPLE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005